

CARTER STREET CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2012



HENDERSON HUTCHERSON & McCULLOUGH, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

CARTER STREET CORPORATION

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HENDERSON HUTCHERSON
& McCULLOUGH, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Carter Street Corporation
Chattanooga, Tennessee

We have audited the accompanying financial statements of Carter Street Corporation (a Tennessee not-for-profit corporation) as of June 30, 2012, as listed in the index to report. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carter Street Corporation as of June 30, 2012, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2012, on our consideration of Carter Street Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Carter Street Corporation has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Chattanooga, Tennessee
October 12, 2012

*Henderson Hutcherson
& McCullough, PLLC*

CARTER STREET CORPORATION

STATEMENT OF NET ASSETS

JUNE 30, 2012

ASSETS	
	2012
CURRENT ASSETS	
Cash	\$ 1,623,550
Event receivables, net of allowance of \$6,500	124,478
Prepaid expenses	36,053
Inventories	<u>51,228</u>
Total current assets	1,835,309
CAPITAL ASSETS	<u>10,018,986</u>
TOTAL ASSETS	<u>\$ 11,854,295</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 119,920
Accrued expenses	108,314
Advance deposits	<u>233,170</u>
Total current liabilities	<u>461,404</u>
NET ASSETS	
Invested in capital assets, net of related debt	10,018,986
Temporarily restricted	95,169
Unrestricted	<u>1,278,736</u>
Total net assets	<u>11,392,891</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,854,295</u>

CARTER STREET CORPORATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2012

	2012
OPERATING REVENUE	\$ 5,879,250
COST OF OPERATING	<u>2,508,273</u>
Net operating revenue	<u>3,370,977</u>
OPERATING EXPENSES	
Administrative expenses	1,987,570
Maintenance and supplies	349,492
General operating expenses	<u>1,065,652</u>
Total operating expenses	<u>3,402,714</u>
Net loss from operations before depreciation and amortization	(31,737)
Less depreciation and amortization	<u>604,297</u>
Net loss from operations	<u>(636,034)</u>
NONOPERATING REVENUE	
City appropriation	100,000
County appropriation	<u>211,927</u>
Total nonoperating revenue	<u>311,927</u>
Net loss before capital contributions	(324,107)
CAPITAL CONTRIBUTIONS	<u>200,000</u>
DECREASE IN NET ASSETS	(124,107)
NET ASSETS	
Beginning of year	<u>11,516,998</u>
End of year	<u>\$ 11,392,891</u>

CARTER STREET CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012

	2012
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 5,944,853
Cash paid to suppliers	(3,040,579)
Cash paid to employees	<u>(2,856,578)</u>
Net cash from operating activities	<u>47,696</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	200,000
Cash paid for capital assets	<u>(94,389)</u>
Net cash from capital and related financing activities	<u>105,611</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from City of Chattanooga and Hamilton County	<u>311,927</u>
Net cash from noncapital and financing activities	<u>311,927</u>
NET INCREASE IN CASH	465,234
Cash - beginning of year	<u>1,158,316</u>
Cash - end of year	<u><u>\$ 1,623,550</u></u>

CARTER STREET CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012

	2012
RECONCILIATION OF OPERATING NET LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Net loss from operations	\$ (636,034)
Adjustments to reconcile operating net loss to net cash used by operating activities:	
Depreciation and amortization	604,297
Net change in:	
Event receivables	(38,594)
Inventories	833
Prepaid expenses	(14,752)
Accounts payable and accrued expenses	29,741
Advanced deposits	112,205
Deferred revenues	<u>(10,000)</u>
Net cash provided by operating activities	<u>\$ 47,696</u>

CARTER STREET CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Carter Street Corporation (the Corporation) is a nonprofit corporation organized by the City of Chattanooga, Tennessee (City) and Hamilton County, Tennessee (County). The Corporation serves as the coordinating body for the development, operation and management of the Chattanooga/Hamilton County Convention and Trade Center and parking garage and is lessor of the adjoining hotel.

Generally accepted accounting principles require that the basic financial statements present the accounts and operations of the Corporation and its component units, entities for which the corporation is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Corporation's operations, and data from these units, if any, are combined with data of the Corporation. Each discretely presented component unit, if any, would be reported in a separate column in the combined basic financial statements to emphasize that it is legally separate from the Corporation. As of June 30, 2012, and for the fiscal year then ended, the Corporation had no discretely presented component units or any component units required to be blended in these basic financial statements.

Basis of Presentation

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The accompanying basic financial statements are presented using the accrual basis of accounting. In accordance with principles generally accepted in the United States of America, the Corporation applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, and all applicable Governmental Accounting Standards Board pronouncements. The measurement focus is upon determination of financial position, changes in net assets, and changes in cash flows. The generally accepted accounting principles used are those applicable to similar business in the private sector. Revenues are recognized when earned and expenses are recognized when incurred. All assets and liabilities (whether current or non-current) associated with the Corporation's activities are included in the statement of net assets. The reported net assets are segregated into invested in capital assets (net of related debt), restricted and unrestricted components.

(Continued)

CARTER STREET CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Event Receivables

The carrying amount of event receivables is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management reviews each receivable balance that exceeds 60 days from the invoice date, and, based on historical bad-debt experience and management's evaluation of customer credit worthiness, management estimates that portion, if any, of the balance that will not be collected. No interest is charged on delinquent receivables.

Inventories

Inventories are recorded at the lower of cost (first-in, first-out method) or market.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Capital assets are stated at cost or fair value, if donated, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets. Additions and major renewals are capitalized and depreciated over their estimated useful lives. Repairs, maintenance and minor renewals are charged to operating expenses as incurred.

Compensated Absences

The Corporation's policy is to compensate all full-time employees for earned but unused vacation pay. The accompanying financial statements include a liability for compensated absences.

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and cash in bank.

(Continued)

CARTER STREET CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The Corporation's financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in capital assets (net of related debt) is intended to reflect the portion of net assets which is associated with non-liquid capital assets less outstanding capital assets related debt.

Restricted net assets represent net assets that have third party (statutory, bond covenant or granting agency) limitations on their use. The Corporation's policy is generally to use any restricted assets first, as appropriate opportunities arise. As of June 30, 2012, the corporation has restricted net assets.

Unrestricted net assets represent net assets that are not subject to donor-imposed stipulations. While management may have categorized and segmented portions for various purposes, the Corporation has the unrestricted authority to revisit or alter these managerial decisions.

Advertising Costs

The Corporation's policy is to expense advertising costs as incurred. Advertising costs included in expense totaled \$29,322.

Tax Status

The Corporation has obtained approval for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

Uncertain Tax Positions

The Organization is considered an exempt organization from Federal and state income taxes. However, in the event that the organization partakes in an activity that could jeopardize this tax-exempt status, the Organization would be subject to income tax.

The Organization follows the guidance of FASB Accounting Standards Codification (ASC) Topic 740, Income Taxes, which specifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. Based on its evaluation, the Organization has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits. The Organization's evaluation was performed for tax years ended June 30, 2009 through June 30, 2012, for federal income tax, the years that remain subject to examination by major tax jurisdictions as of June 30, 2012.

CARTER STREET CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 2 – RENTAL REVENUE LEASES

The Corporation has leased certain air rights along with 350 parking spaces to a private developer for the construction of a luxury hotel. The annual rental payments are due from the hotel at a minimum of \$300,000 plus a percentage of net cash flow as defined in the lease agreement. The lease expires in 2025 and provides for two successive fifteen-year renewal options.

NOTE 3 – RETIREMENT PLANS

The Corporation maintains a defined contribution employee benefit plan. The plan covers substantially all full-time employees who have attained the age of 21 and have at least one year of service with the Corporation. The plan provides that the Corporation shall make a pension contribution equal to 5% of eligible participants' annual compensation. Employees are 100% vested in the plan upon completion of three consecutive years of service. The Corporation's expense and contribution to the plan was \$106,693 for the year ended June 30, 2012.

The Corporation also has a supplemental retirement plan. Under this plan the Corporation will match 100% eligible employees' elective contributions up to 1.5% of their annual salary. The Corporation's expense under this plan was \$21,411 for the year ended June 30, 2012.

NOTE 4 – RISK OF LOSS

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. Commercial insurance is purchased by the Corporation to cover the risk of loss. There have been no losses greater than insurance coverage over the last three years.

NOTE 5 – CASH AND INVESTMENTS

The Corporation invests excess cash in interest-bearing accounts and overnight cash investments with local depository institutions as authorized by the Board of Directors and in accordance with applicable state laws. The Corporation's policy with respect to cash and overnight cash investments is to maximize investment earnings while maintaining an acceptable level of risk.

At June 30, 2012, the Corporation held no amounts in investments.

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CARTER STREET CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 5 – CASH AND INVESTMENTS (Continued)

Custodial credit risk – The Corporation’s policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105 percent of the value of the uninsured deposits. Those deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Corporation’s agent in the Corporation’s name, or by the Federal Reserve Bank acting as third party agents. State statutes also authorize the Corporation to invest in repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. At June 30, 2012, all deposits were entirely covered by the Federal Deposit Insurance Corporation or the Tennessee Bank Collateral Pool.

NOTE 6 – NET OPERATING REVENUE

Details of net operating revenue for the year ended June 30, 2012, are as follows:

	<u>Events</u>	<u>Garage</u>	<u>Hotel Rental</u>	<u>Total</u>
Operating revenue	\$4,739,178	\$738,806	\$ 401,266	\$ 5,879,250
Cost of operating	<u>2,452,102</u>	<u>56,171</u>	<u>-</u>	<u>2,508,273</u>
	<u>\$2,287,076</u>	<u>\$682,635</u>	<u>\$ 401,266</u>	<u>\$ 3,370,977</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

The City and County both appropriate funds to the Corporation for general operations throughout the year. For the period ended June 30, 2012, the City appropriated \$100,000 and the County appropriated \$211,927.

CARTER STREET CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 8 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2012, is as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets (non-depreciable)				
Land	\$ 2,709,075	\$ -	\$ -	\$ 2,709,075
Construction in process	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	2,709,075	-	-	2,709,075
Capital assets (depreciable)				
Trade center	14,388,945	39,797	-	14,428,742
Parking garage	5,256,262	2,150	-	5,258,412
Skybox	50,000	-	-	50,000
VIP/First TN Parking	22,000	-	-	22,000
Equipment	2,507,349	64,646	(24,408)	2,547,587
Furniture and fixtures	<u>572,592</u>	<u>-</u>	<u>-</u>	<u>572,592</u>
	<u>25,506,223</u>	<u>106,593</u>	<u>(24,408)</u>	<u>25,588,408</u>
Less accumulated depreciation				
Trade center	8,710,684	372,603	-	9,083,287
Parking garage	3,405,800	131,532	-	3,537,332
Skybox	15,000	2,500	-	17,500
VIP/First TN Parking	14,250	2,000	-	16,250
Equipment	2,259,003	95,662	(12,204)	2,342,461
Furniture and fixtures	<u>572,592</u>	<u>-</u>	<u>-</u>	<u>572,592</u>
	<u>14,977,329</u>	<u>\$ 604,297</u>	<u>\$ (12,204)</u>	<u>15,569,422</u>
Total capital assets	<u>\$10,528,894</u>			<u>\$10,018,986</u>

NOTE 9 – SUBSEQUENT EVENTS

The Corporation has evaluated events and transactions subsequent to the statement of net assets date through the date of the auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring disclosure.



HENDERSON HUTCHERSON
& McCULLOUGH, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
Carter Street Corporation

We have audited the financial statements of Carter Street Corporation as of and for the year ended June 30, 2012, and have issued our report thereon dated October 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Carter Street Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Carter Street Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Carter Street Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be presented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carter Street Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management and the governmental funding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Chattanooga, Tennessee
October 12, 2012

Henderson Hutcherson
& McCullough, PLLC

CARTER STREET CORPORATION

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2012

CURRENT YEAR FINDINGS

None reported

PRIOR YEAR FINDINGS

None reported